

established maximums governed by bed capacity as shown on the attached schedule, Appendix 'C'. Effective September 1, 1996 Nursing Facilities with a licensed bed compliment of 75 beds or less will be reimbursed based on current allowable costs for the administrator's salary. Said reimbursement will be subject to the ceiling maximums and the provisions as outlined below.

A Nursing Facility with a licensed bed compliment of 75 beds or less that is not fully recognized for reimbursement for the administrator's salary because of the Management Related cost center maximum and whose actual cost is equal to or less than subject the limitations on appendix 'C', and is reimbursed for an amount less than the Labor Related Expenses cost center maximum can receive an amount up to 50 percent of the difference between the Labor Related Expenses cost center maximum and the rate assigned in that cost center to accommodate up to the full administrators salary.

Appendix 'C' will be adjusted annually commencing July 1, 1994~~7~~ by the amount of percentage change reflected by the Wage and Salary Component of the National Nursing Home Input Price Index as projected by the Health Care Financing Administration for the twelve-month period ending the previous March.

### **Nursing and Other Personnel**

The Department of Health establishes policy including minimum staffing patterns for

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nursing, dietetic, housekeeping and other operational functions. These standards will be used by the Rate Setting Unit for general guideline purposes only in determining allowable personnel costs.

For labor classifications not specifically covered, health care practices currently recognized by the State will apply.

### **Facilities Operated by Members of a Religious Order**

The recognized salary allowance for members of a religious order providing patient care services will be limited to the lower of actual stipend paid on their behalf or the salary equivalent that would be recognized by these Principles of Reimbursement for similar services.

## **RENTAL AND LEASE PAYMENTS**

### **General**

Rental and/or lease agreements originating on and after January 1, 1985 may be recognized for reimbursement providing the amount does not exceed ownership costs, such as mortgage interest and depreciation.

### **Agreements Between Affiliated Parties**

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**OFFICIAL**

Where rent and/or lease agreements are between related individuals as defined by H.I.M.-15, or by corporate officers, or partners, or parties in which there is a common ownership or from related organizations, or any combination thereof the recognized amount for Medicaid reporting shall constitute the actual cost of said rental property consisting of such elements as depreciation, mortgage interest and real estate taxes.

### **Distinguishing Between a Rental and a Purchase**

Reporting on leases in the annual cost report may require special treatment depending upon the circumstances. Where it is apparent that the transaction involved is in substance a purchase, the leased property should be included among the assets of the lessee with suitable accounting for the corresponding liabilities and for the related charges. The following conditions will generally establish that a lease is a virtual purchase.

- a. The rental charge exceeds charges of comparable equipment in the area.
- b. The term of the lease is less than the useful life of the equipment.
- c. The lessee has the option to renew the lease at a significantly reduced rental.
- d. The lessee has the right to purchase the equipment at a price which appears to be significantly less than the fair market value.

### **PROFESSIONAL SERVICES**

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**OFFICIAL**

The fees must meet the test of reasonable costs, and must be fully documented by billing which clearly describes the nature of the services rendered.

An example of admissible cost is the fee for legal services in connection with a directive to comply with fire codes regulations. A legal or accounting charge resulting from a buy/sell agreement between related parties is inadmissible. Professional fees associated with future construction must be deferred and included with the project construction costs. See page 32 for rates relating to sales commissions and brokerage fees.

## **FRINGE BENEFITS**

Fringe benefits such as prepaid health insurance, group life insurance, employees child day care, dental plans, and retirement plans, are allowable costs, providing they are offered to all full-time employees. Similar benefits or partial benefits offered to all permanent part-time employees working at least twenty hours per week will also be recognized. Fringe benefits which advantage officers, owners, or other related individuals in a disproportionate manner will be adjusted to reflect equity of application. Fringe benefits by employee classification must be addressed in the facility's personnel and policy manual in order to be recognized. Benefits other than those stated above must have the prior written approval of the Rate Setting Unit and must be reasonable and necessary for

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**OFFICIAL**

the efficient, effective and economical operation of similar facilities participating in the Rhode Island Medicaid Program.

New fringe benefits provided to full time and permanent part time employees working at least twenty hours per week during a facility's base year will be annualized for prospective calendar years if the cost of the new benefit during the base year was less than a twelve month period. Upgrading and/or substitution of benefits does not qualify for this provision. New fringe benefits must continue through prospective years otherwise a rate reduction will be assigned retroactive to the date benefits were discontinued.

Vacation time and sick leave time are not recognized for reimbursement under the accrual method of accounting and will not be recognized for annualization of new fringe benefits. Vacation time and sick leave time will be recognized as an expense when actually paid to the employee by the facility.

Profit Sharing Plans: Profit sharing plans must continue in prospective periods at a rate equal to the base period. Failure to fund at a level equal to the amount being reimbursed will result in a recovery of reimbursed costs. This will also result in a reduction to the assigned per diem rate of reimbursement.

## **OTHER OPERATING COSTS**

All operating costs, including nursing, medicine chest, and over-the-counter drug

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**OFFICIAL**

supplies which have been determined as reasonable and acceptable will be allowed after reduction for items not related to patient care.

## **ACCOUNTING AND AUDITING FEES**

Accounting and Auditing services are generally a necessary and proper function in the fiscal operation of long term care facilities. Recognized fees associated with these services must be clearly identified by the employed firm as to responsibility, function of activity, hourly billing rate and time element for each function. The Rate Setting Unit shall determine an appropriate amount for such services to be recognized for reimbursement purposes taking into consideration such factors as; facility employed accountant(s), controller(s), comptroller(s), bookkeeper(s), condition of books and records maintained by the facility, and the necessary direct involvement of the Accounting/Auditing firm.

## **STAFF UTILIZATION**

Utilization of labor during a base period/base year for which a rate of reimbursement has been established, must be maintained during prospective reimbursement periods. Decreases in labor hours and expenditures will result in an amount due the Rhode Island Medicaid Program for the period in which such decrease in hours and expenditures occurred and will also result in a decrease in the rate of reimbursement.

TN# 96-007    Supersedes TN# 93-013

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**OFFICIAL**

**ROUTINE SERVICES**

Expenses pertaining to utilization review of all patients, physical therapy and other remedial therapeutic services will be accepted and considered as routine services for rate calculation.

**EDUCATIONAL ACTIVITIES**

The cost of approved educational activities of full-time employees will be include as an allowable cost provided that such activities are directly related to improving adequate patient care or the administration of the facility. In addition, the activity must be formally organized by a recognized school or organization approved by the State. Educational activities does not cover nurse aide training and competency evaluation expenditures as these expenditures are not reimbursable through the Medicaid Program.

**PHYSICIANS FEES**

Reasonable fees which pertain to utilization review, medical director, employees physical examinations and services required by OBRA-87 are considered allowable costs.

**CONFERENCE EXPENSES**

Reasonable expenses related to attendance at meetings and conferences may be

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**OFFICIAL**

allowable subject to the following conditions:

- a. The program offered is approved as one which has the purpose of maintaining or improving the quality of patient care or administration within a facility.
- b. The State shall determine whether there is a direct relationship between the job responsibilities of the person in attendance and the subject matter covered.
- c. Attendance to major out-of-state conferences will be limited to two such conferences with not more than one person attending.

#### **COST OF MAINTAINING TRANSPORTATION VEHICLES**

Expenditures for gas, oil, repairs of transportation vehicles will be allowable to the extent of the number of vehicles permissible under the principles even if the vehicles are fully depreciated (see page 30). If the travel logs indicate that less than 100% nursing facility business use, only the percentage attributable to nursing facility business use will be recognized.

#### **MEDICINE CHEST SUPPLIES, TRANSPORTATION AND LAUNDRY EXPENSES**

The per diem and interim per diem rates that are established include the reported expenses of nursing and medicine chest supplies, examples of which are, but not limited

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**OFFICIAL**

to, Appendix 'D'; transportation of patients who can be transported by auto to and from physician's office, dental services, medical laboratories and hospitals for outpatient treatment; as well as laundry expenses including personal laundry with the exception of dry cleaning costs; therefore, facilities must not charge Title XIX patients or their relatives for these services.

## **INSURANCE**

Generally acceptable insurance coverage for business enterprises including the types listed below are reimbursable:

1. Liability Insurance
2. Malpractice Insurance
3. Worker's Compensation
4. Property Insurance

Payment of health and life insurance premiums which provide benefits to an employee or his/her beneficiary are considered fringe benefits and should be claimed as such by the provider. Premiums related to insurance on the lives of officers and key employees which name the provider as beneficiary are not allowable costs. If the individual or his estate are beneficiary, the premiums can be considered compensation to the individual and the cost would be allowable to the extent his/her total compensation is

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**OFFICIAL**

reasonable.

Insurance costs applicable to transportation vehicles will be allowable to the extent of equivalent vehicle units permissible under the principles.

Mortgage insurance premiums are generally not an allowable cost. However, where the principal mortgagee specifically requires that the insurance be obtained as a prerequisite to completing financing arrangements and the insurance agreement stipulates that total proceeds must apply to the mortgage balance, then the premiums shall be reimbursable. The proceeds so applied will be construed as allowed depreciation taken for reimbursement purposes.

## **START-UP COSTS**

"Start-up costs" are defined for the Rhode Island Medicaid Program as those costs incurred for the operation and maintenance of a facility for a period not to exceed six weeks prior to the admission of the first patient. Such costs would include administration and nursing salaries, heat, gas, electricity, insurance, employee training costs (excluding nurse aide training and competency evaluation expenditures), repairs and maintenance and any other allowable costs incident to the operation of the facility, but not interest, depreciation and real estate and personal property taxes. Inasmuch as start-up costs

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